

Message Text

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67

ACTION XMB-07

INFO OCT-01 EA-11 ISO-00 EUR-25 FEA-02 AEC-11 SCI-06 INT-08

AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00

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R 140918Z FEB 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 2502

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E.O. 11652: N/A

TAGS: BMEP, KS

SUBJECT: INCHON III AND IV POWER PLANTS

REF: SEOUL 507

1. AFTER LEARNING THAT KOREA ELECTRIC COMPANY (KECO) HAS ISSUED LETTER OF INTENT TO FRENCH (ALSTHOM) FOR INCHON III AND IV, EMBOFF CALLED ON MIN, CHOONG SIK, KECO PRESIDENT, TO INQUIRE INTO REASONS FOR DECISION TO ACCEPT FRENCH OFFER OVER WESTINGHOUSE OFFER. MIN MAINTAINED THAT ALTHOUGH TWO OFFERS WERE CLOSE AT BEGINNING OF EVALUATION PERIOD, FRENCH DEVALUATION OPENED GAP. FINAL FRENCH PRICE FOR TWO 300 MW UNITS WAS \$83 MILLION, OR \$5 MILLION LESS THAN WESTINGHOUSE OFFER. ANOTHER CONSIDERATION, MIN SAID WAS WESTINGHOUSE HIGHER HEAT RATE WHICH WOULD COST ADDITIONAL \$12 MILLION OVER TWENTY-FIVE YEAR PERIOD. FRENCH OFFER, HE SAID CARRIED INTEREST RATE OF SIX AND ONE-HALF PERCENT.

2. EMBOFF INQUIRED AS TO WHETHER ROKG AND KECO WERE PREPARED TO RETURN EXISTING EXIM \$26 MILLION SIX PERCENT CREDIT FOR INCHON III, ON WHICH KECO HAS ALREADY PAID OVER ONE-HALF MILLION DOLLARS COMMITMENT FEE. SUGGESTED POSSIBLE UTILIZATION OF CREDIT TO COVER AMERICAN BOILER UNITS AND AUXILIARY EQUIPMENT ALONG WITH FRENCH

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ELEMENTS.

3. AFTER BEING TOLD THAT EXIM CREDIT FOR INCHON III COULD PROBABLY NOT BE SWITCHED TO KORI II, MIN SAID HE HAD INDEED BEEN INTERESTED IN BABCOCK WILCOX BOILERS AND HAD EVEN SUGGESTED THESE TO FRENCH. HOWEVER, FRENCH HAS INSISTED THAT FRENCH PACKAGE MUST BE ALL FRENCH; THAT U.S. BOILERS ARE MORE EXPENSIVE, AND THAT LACK OF ESCALATION CLAUSE LEFT NO PROTECTION AGAINST INCREASED COSTS THAT WOULD BE INVOLVED. UNDER THESE CIRCUMSTANCES, MIN SAID, HE COULD NOT PUSH THE FRENCH TOO HARD.

4. EMBASSY COMMENT: KECO COMPARISON OF U.S. AND FRENCH OFFERS NOT ENTIRELY VALID SINCE WESTINGHOUSE OFFERED 330 MW UNITS AND KECO SIMPLY SCALED DOWN U.S. OFFER TO MATCH IT AGAINST FRENCH OFFER FOR 300 MW UNITS. FRENCH CREDIT MUST BE CLEARED BY ROKG COMMITTEE HEADED BY ECONOMIC PLANNING BOARD WHICH WILL SEEK ADVICE OF MINISTRY OF COMMERCE AND INDUSTRY. EMBASSY WILL APPROACH BOTH AGENCIES AND SUGGEST THAT EXIM CREDIT BE USED TO COVER PART OF REQUIREMENT FOR INCHON III AND IV.
HABIB

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